

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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HF 2532 – Auditor of State Code Cleanup Bill (LSB 5454 HV)

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Fiscal Note Version – New

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#### **Description**

House File 2532 makes numerous technical changes to the Code of Iowa as well as substantive policy changes concerning audit requirements of cities. The significant policy changes in this Bill affect cities with a population under 2,000. Under current law, cities with populations under 700 are not required to be audited, but are required to submit an annual financial report to the Auditor of State. Cities with populations between 700 and 1,999 are required to be audited every four years and cities with populations of 2,000 or more are required to be audited annually. This Bill requires cities with populations of 1,500 or more to have an annual audit and cities with populations less than 1,500 to submit annual financial reports to the Auditor of State. The Bill requires the Auditor of State to adopt administrative rules for the establishment of a report filing fee for those cities required to file annual financial reports with the Auditor of State.

#### **Assumptions**

- For cities with populations between 1,500 and 1,999, an average cost of \$8,000 is used for audits conducted by the Auditor of State and \$5,300 for audits conducted by CPA firms.
- For cities with populations between 700 and 1,499, an average cost of \$7,700 is used for audits conducted by the Auditor of State and \$5,500 for audits conducted by CPA firms.
- The report filing fee would be annually assessed to cities with a population of less than 1,500. The fee for cities with populations of less than 700 is estimated to be \$100. The estimated fee for cities with populations of 700 to 1,499 is \$124.
- There are 580 cities with populations of less than 700. These cities would be required to submit annual financial reports and pay a report filing fee to the Auditor of State.
- There are 182 cities with populations between 700 and 1,499 that are currently required to be audited every four years. Of these, 30 cities currently elect to have annual audits and it is assumed they will continue to have annual audits. Therefore, 152 (38 per year) would no longer have a four-year audit, but would submit an annual financial report to the Auditor of State.
- There are a total of 39 cities with populations between 1,500 and 1,999. Of these, 17 currently elect to have annual audits and it is assumed they will continue to have annual audits. The remaining 22 cities will require annual audits. Audits for 9 of the 22 cities will be conducted by the Auditor of State and 13 by private CPA firms.

#### **Fiscal Impact**

House File 2532 will not have a significant fiscal effect on State General Fund revenues or expenditures.

The estimated net increase in fees collected by the Auditor of State is \$56,400. The increase in revenues will be used by the Auditor of State to add one position to examine annual financial reports and increase oversight of city financials.

The Bill will also have a net savings, collectively, to cities of approximately \$17,700. However, certain cities will experience an increase in audit or audit-related costs while others will experience a savings. The following table summarizes the estimated costs and savings.

**Revenue Impact to the Auditor of State**

City Category by Population	Total
Estimated Revenue Increase	
Less than 700	\$ 58,000
700 - 1,499	18,800
1,500 - 1,999	76,700
Total Revenue Increase	\$ 153,500
Estimated Revenue Reduction	
700 - 1,499	\$ -97,100
Total Net Revenue Increase to Auditor of State	<u>\$ 56,400</u>

**Revenue Impact to the Cities**

City Category by Population	Total
Estimated Savings	
700 - 1,499	\$ 235,400
Estimated Costs	
Less than 700	\$ -58,000
700 - 1,499	-18,800
1,500 - 1,999	-140,900
Total Estimated Cost to Cities	\$ -217,700
Total Net Savings to Cities	<u>\$ 17,700</u>

**Sources**

Auditor of State

/s/ Holly M. Lyons

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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